
Administrative and Other Operating Costs

MEMORANDUM

TO: Chief Financial Officers, Administrative Officers, Budget Officers,
and
Chief Accountants
All State Departments and Agencies

FROM: John J. Linderman, Director
Office of Financial Management
and
Sandra L. Engle, Director
Office of Budget Development and Information

DATE: September 11, 1995

SUBJECT: Administrative and Other Operating Costs Funded by More than
One
Appropriated Fund; Change in Method of Processing for Fiscal
Year
1995-96

We are writing to notify you about and explain a change, effective immediately for fiscal year 1995-96, in the method of processing and classifying certain types of expenditures which are funded from more than one appropriated fund (D22).

In many situations, our State system of budgeting for and classifying expenditures involves appropriated line items that are supported by funding from more than one appropriated fund (D22). Under the GA/FMIS system, expenditures processed against a spending account (an appropriated line item) could only be directly charged to one appropriated fund, in most cases, the General Fund. Therefore, all appropriation line items supported by more than one appropriated fund (D22) required either *operating transfers* between appropriated funds, or the recording of *expenditures* in the fund providing the funding and *expenditure credits* in the expending fund, depending on the nature of the transactions involved.

Most departments with this situation have continued to record *operating transfers* for this type of activity in fiscal year 1995 under MAIN. The expanded functionality provided by R*STARS permits direct charging of expenditures, when appropriate, to more than one appropriated fund (D22).

While the use of *operating transfers* to record and classify such transactions was acceptable under generally accepted accounting principles (GAAP), in some cases it is preferable to record such expenditures *directly* in the appropriated funds, as indicated by the legislature in the sources of funding identified in the appropriations acts. A change in accounting method may be

considered preferable if it results in increased reliability and precision, improved practicality, or better compliance with GAAP or state accounting policy.

Direct charging of expenditures funded by more than one appropriated fund (D22) would normally be considered preferable when, in effect, the objective is "to allocate costs" between appropriated funds. For example, an agency receives General Fund appropriations for its operations and other costs, which are funded by general fund/ general purpose and several other sources, including three separate appropriated (D22) (e.g., special revenue) funds. Under the previous method of processing in the GA/FMIS system, *operating transfers* would have been recorded between the three special revenue funds and the General Fund. Using the new capability available under R*STARS, these transactions should be *directly charged* to the General Fund and the three special revenue funds to properly allocate the costs.

Under R*STARS, a 20 appropriation profile may be established which "looks up" more than one D22 appropriated fund. That is, the system makes it possible for one 20 appropriation to record, for example, expenditures in the General Fund, the Game and Fish Fund, and the Marine Safety Fund, with applicable funding being provided by each fund. Changing 20 appropriation profiles to directly support expenditures for administrative and other non-capital costs within each D22 appropriated fund increases the reliability of the cash management activity for each fund. Also, direct charging, when appropriate, is a more efficient method of accomplishing the allocation of costs between funds.

To assist in analyzing your agency's expenditure account structure to identify situations when direct charging treatment would be appropriate, a copy of the applicable guidance from the GASB's "Codification of Governmental Accounting and Financial Reporting Standards" is attached. The relevant section, *Operating Transfers*, Sec. 1800.106 b, has been highlighted. **In effect, this section identifies the types of interfund transactions which, most appropriately, are classified as operating transfers - typically, these would be legally required transfers of revenues between funds. Please note that the treatment of these types of transfers between funds should not be changed.** In other words, if the situation you are evaluating does not fall into any of the categories identified in Cod. Sec. 1800.106 b, it is likely a good candidate for the direct charging process discussed in this memorandum.

As agencies establish or revise their 20 appropriation profiles for fiscal year 1995-96, they should be alert for situations in which it would be preferable to record *direct expenditures* rather than *operating transfers*. When such situations are identified, the agency should request revised profiles to identify and *directly charge* all D22 appropriated funds which support a line item appropriation. If your agency has already completed its 20 appropriation profiles for fiscal 1995-96, please review them and determine if any revisions are needed to conform to the guidance in this memo. Situations that would involve significant dollar impact should be revised.

Questions about this memorandum should be directed to your agency liaison accountant or Mr. Joseph Frick, Manager, Financial Reporting Section, in the Office of Financial Management. Thank you.

Attachment

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AICs